FIRST ATLANTIC HEALTHCARE

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Division of Licensing and Regulatory Services

Ms. Phyllis Powell
Manager Certificate of Need
Division of Licensing and Regulatory Services
Department of Human Services
Medical Facilities Unit
Augusta, Maine 04333-0011

September 5, 2007

Subject: Letter of Intent

Re: Interior finishes replacement/refurbishment of Ross Manor located in Bangor, Maine

Dear Ms. Powell,

Thank you and your staff for your time today the exchange was very helpful and as a result I am sending this **Letter Of Intent** (LOI) as required by Section 71.05 of the Bureau of Elder and Adult Services Policy Manual; titled, CERTIFICATE OF NEED FOR NURSING FACILITY LEVEL OF CARE PROJECTS.

As discussed in our meeting we will submit information for Jack McMillan's review of those elements of our plans that impact the 24 bed residential care program and for which the capital expenditure is great than $35,000. Additionally, we seek a simplified CON review of the remaining elements as set forth below.

Brief Description:

Ross Manor was constructed in 1991 by Nickerson & Oday at a total cost of $4,269,000 or $44,937 per bed and is in need of improvements to comply with licensing regulations and to insure its viable operation in the future. We propose to refurbish this seventeen-year-old facility via three distinct projects and replace assets that have reached their useful lives based upon AHA useful life guidelines.

The first project relocates the front canopy, replaces finishes in the dinning area and enlarges our therapy area (which results in the reciprocal relocation and downsizing of our current administration space into our current therapy area). We would like to begin this project on September 15, 2007 and complete as much as possible prior to November 24, 2007 at a cost of $599,233. The first project has limited impact on Medicaid rates as the therapy area renovations are excluded from reimbursement and administration areas are downsized. This project impacts the residential care unit and we will submit requested information to Jack relative to his review of the excluded and shared costs that result from the front entrance and administrative areas.

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The second project will take more time to complete, as the work will be undertaken in resident living areas. We expect the effort to begin in full beginning in January 2008 and finish in June 2008. Replacement of the following assets is intended: interior finishes, carpets, the centralized nursing station which includes the adjacent day room all of which are located in common patient living areas. The designs of the new nursing station areas are sensitive to HIPPA requirements and better control the flow of visitors, doctors and staff.

Costs:

Total project cost, Project One per Nickerson & Oday:		$599,233
Therapy area	$ 229,125	
Administration and Canopy	370,108	
	$ 599,233	
Total project cost, Project Two per Nickerson & O'Day:		$ 904,047
Total for all three distinct areas:		$1,503,280

Request for Simplified Review:

Not withstanding that our projects replace equipment as that term is used in the AHA guidelines for health facility assets, we respectfully request that those elements deemed for review under CON regulations in our submission be subject to the standards of a simplified review based upon the facts presented below.

(a) Ross Manor now meets a demonstrated need as established by applicable rules of the Department and is evidenced by a census of more than 90% and the continuing licensure each year by the licensing division.

(b) Ross Manor obtained a CON in 1990 to build the facility and our plans to replace and refurbish assets are designed to meet continuing Federal and State regulations.

(c) Our project results in minimal additional expense to the public and facility clients; and continues to make the facility compliant with other applicable state and local laws and regulations; and will not adversely affect the health and welfare of any person currently being served by the health care facility. This is evidenced by the following facts:

   a. The assets being replaced in our plan have reached their full useful life and thus the planned expenditures continue those elements in the Mainecare rate that supported the predecessor assets. In this regard any incremental cost increases are from general price changes over the seventeen years since the original building components and fixed equipment was installed. Therapy relocation will not have any impact on public costs as this space is non-reimbursable for State purposes and Federal RUG payments are prospective.

b. We will work closely with our general contractor and the licensing division to make certain that all residents will be safe during the construction period and further that all health services and regulatory requirements are met. For example, resident meals will be served in their rooms during the dinning room phase. Overall and just as the dinning room is an example, all areas will be renovated in a manner that is the least disruptive and for the shortest time periods.

(d) Our planed capital expenditures have been fully vetted through two rounds of value engineering with Nickerson & O'Day and will be incurred to comply with state licensing standards. It was noted in the recent Federal and State survey that facility interior finishes were in poor condition and that this "surprised" the State's surveyor who has come to expect our facilities to be well maintained. Ross Manor management shared our plans with the surveyor and avoided citations based upon our assertion that we were soon to be fixing deficient areas.

(e) Private rates will not increase as a consequence of these projects and therefore our demonstration of economic feasibility relies on continuing customer acceptance of our product, strong census and quality services to maintain present funding levels. Debt service coverage ratios are generally accepted as good indicators of financial strength and viability. A debt service coverage ratio of 1.2 times operating income is considered by most financial institutions to be adequate to insure economic viability. Currently the facility debt service coverage ratio is 1.81 and after the project the ratio will be 1.60, well within the benchmark standard of 1.2 to 1.

(f) As we noted earlier, there is strong need and demand for Ross Manor services. Our projects will not diminish this demonstrated need.

(g) Our proposal is the most cost effective manner in which to meet ongoing environmental licensing requirements as follows: The cost per bed of the proposed project is $16,520 ($1,503,280/91 BEDS) compared to the cost of a new facility which is $100,000 per bed and more. Also, by awarding the three contracts simultaneously, we achieve economies for construction management, sub-contractor pricing of materials and labor. As I noted in our meeting today, the original proposal from Nickerson & O'Day was over $2,000,000 and this has been reduced by scope reductions and value engineering efforts to $1,503,280.

Project construction is expected to be completed within twelve months and will be managed to minimize disruption to patients and staff. Our company has a great deal of experience refurbishing nursing facilities while simultaneously providing services and we will select only those contractors who meet our requirements for patient awareness and safety.

We expect to finance the project costs with a 15-year second mortgage at a rate not to exceed 7.75% if the financing is secured within the next 60 days. The debt service coverage ratio after the project is completed will be 1.60. Also, the remaining primary mortgage of approximately \$2,600,000 will be fully retired by 2010 hence, the lion's share of debt service related to the original (including debt related to Engle Place) financing is applied to principal over the next few years significantly reducing interest expense and mitigating against future rate increases.

We look forward to your affirmative reply that our projects are eligible for simplified review including a review of costs that will be allocated to the rescare unit that triggers review under those regulations.

Sincerely,

Kenneth Bowden, CEO
First Atlantic Healthcare

Cc: Craig Coffin, COO
Wanda Pelkey, CFO
Ken Hews, President of Ross Care